

MERS Presentation To  
Financial Liabilities  
Committee

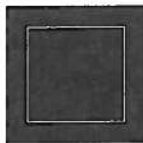


October 17, 2013

Submitted by  
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## Recap of Our Previous Conversation

- MERS Overview
- We partner with our customers to provide one-stop professional retirement services
- Case Studies
- We offer a range of customizable plans which employers can choose from to fit their budget and manage their ongoing unfunded liabilities (both pension and OPEB)
- Fiscal Best Practices

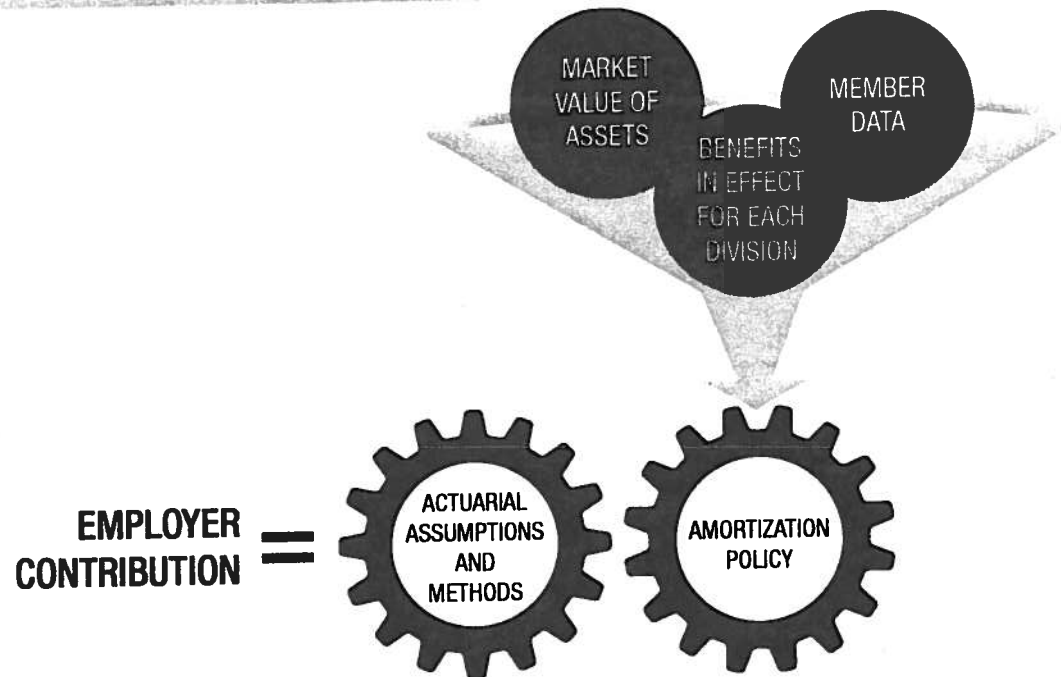


## Objectives for Today



- Pension Funding
- Closing a Defined Benefit Plan
- Experience with Pension Bonding
- Recommendations for the Future

## How is the Employer Contribution Calculated?



\*Recommended by the Actuary and  
established by the Retirement Board

# Employer Contribution

**Employer contribution rate is made of up two parts:**

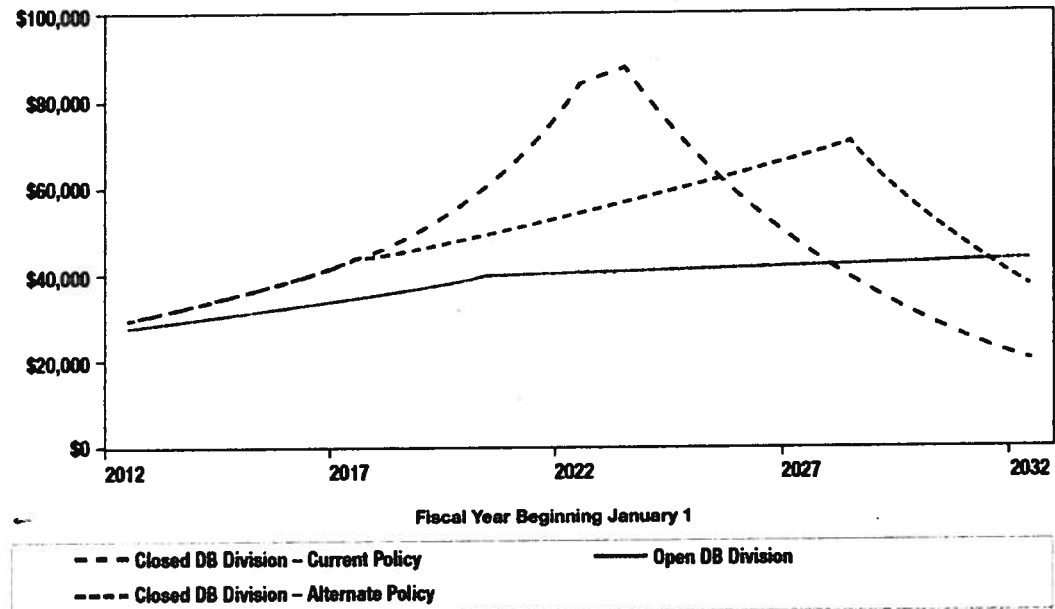
- 1. Employer Normal Cost**– Present value of benefits allocated to the current plan year less any Employee contribution
- 2. Amortization Payment of Unfunded Accrued Liability**– Payment to reduce any shortfall between liability for past service and assets

$$\text{Employer Normal Cost} + \text{Amortization Payment of the Unfunded Actuarial Accrued Liability} = \text{Employer Contribution}$$

## Closing a Defined Benefit Plan to a Defined Contribution Plan

- New hires, rehires, and transfers are covered by the Defined Contribution Plan
- Projection Study is required
  - Shows long-term cost of the plan
  - How employer would be affected
- Defined Benefit division closes
  - Reduced amortization schedule and accelerated funding requirements
  - Assets in the Defined Contribution Plan cannot be used to pay benefits for members covered by closed Defined Benefit Plan

# MERS Amortization Policies



# Closed Division Amortization Policy

## Option A Current MERS Policy

- Amortization period begins two years below current schedule
- Schedule decreases by two years each year until five years is reached
- Division holds at a five year amortization schedule


## Option B Alternative MERS Policy

- Amortization period begins two years below current schedule
- Schedule decreases by two years each year until 15 years is reached
- Schedule decreases by one year each year until it reaches five years
- Division holds at a five year amortization schedule





## Closed Division Amortization Policy

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- Accelerated funding of a closed defined benefit division ensures it is funded properly
    - Assets are dedicated for future retirees
    - Currently, MERS requires the municipality to become fully funded more rapidly in order to pay promised benefits
  - MERS has two options for amortization



## Bonding

- Public Act 329 of 2012 allows a municipality to issue a security, or Pension Obligation Bond (POB), to offset all or a part of a retirement program's unfunded liability, subject to certain conditions
- Municipalities may also bond for OPEB liability
- MERS is available to assist, by providing bonding projections

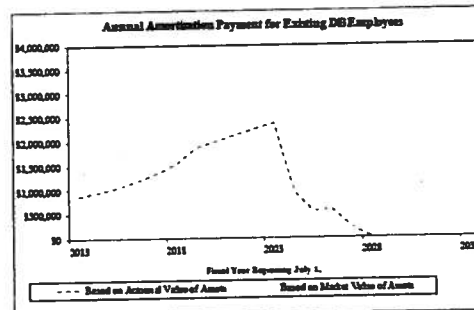
# Bonding Projection

## Important Points:

- The unfunded accrued liability will be calculated as of a December 31st date
  - The amortization period will decline to zero
  - The selected closed amortization policy will be used
- The data will be based off of the most recent actuarial valuation
- There is no guarantee divisions will remain fully funded


Projected Amortization Payments Based on December 31, 2011 Actuarial Valuation and Amortization Policy Option A - Modified After Reaching 5-Year Amortization Period

Fiscal Year	Beginning of Year	Amortization Factor	Based on the Actuarial Value of Assets		Based on the Market Value of Assets	
			Beginning of Year UAL Balance	Amortization Payment	Beginning of Year UAL Balance	Amortization Payment
2013			1,822,828	878,812	18,017,891	1,333,732
2014			1,854,825	960,867	18,072,928	1,457,721
2015			1,884,510	1,059,313	18,003,478	1,606,291
2016			1,647,728	1,180,883	17,774,038	1,765,451
2017			1,282,036	1,237,201	17,335,949	2,024,411
2018			10,870,195	1,850,724	16,518,383	2,344,234
2019			10,127,853	1,873,130	15,510,048	2,824,305
2020			9,550,897	1,959,351	13,816,113	3,002,246
2021			7,541,737	2,130,208	11,800,154	3,218,825
2022			6,038,752	2,241,198	9,401,004	3,384,838
2023			4,182,156	2,367,815	6,534,590	3,577,112
2024			2,068,218	967,227	3,446,995	1,741,530
2025			1,225,990	560,022	1,912,457	874,380
2026			741,534	585,223	1,166,546	513,727
2027			152,957	200,477	299,252	310,925
2028			0	-	0	-
2029			-	-	-	-
2030			-	-	-	-
2031			-	-	-	-
2032			-	-	-	-
2033			-	-	-	-





## Considerations for the Future

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- Require municipalities be at least 100% funded or pay for the benefit upfront in order to make improvements
  - MERS has an accessible statewide funding vehicle for local municipalities to fund their OPEB liabilities
    - Groups have used this vehicle alongside our DC like program for health care to eliminate unfunded liabilities in the future
  - Continue to review and implement checks and balances to eliminate unexpected final average compensations spikes